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ANNUAL REPORT
OF
THE KROGER GROCERY & BAKING COMPANY

FOR THE FISCAL YEAR ENDED DECEMBER 29, 1934

The Kroger Grocery & Baking Company

Executive Offices: 35 East Seventh Street

CINCINNATI, OHIO

OFFICERS

ALBERT H. MORRILL, *President and General Manager*

CHARLES M. ROBERTSON,
Vice-President and Treasurer

CLARENCE O. SHERRILL, *Vice-President*

L. J. HUERKAMP, *Secretary*

J. H. SADLER, *Ass't. Sec'y. and Ass't. Treas.*

F. M. GRIEME, *Assistant Treasurer*

T. S. BURNS, *Assistant Secretary*

J. M. MARKLEY, *Assistant Secretary*

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DIRECTORS

OTTO ARMLEDER, Cincinnati
Capitalist

R. G. CLARK, Cincinnati
*Vice-President and General Manager, Piggly
Wiggly Corporation*

WALTER A. DRAPER, Cincinnati
*President, The Cincinnati Street Railway
Company*

CHARLES W. DUPUIS, Cincinnati
President, The Central Trust Company

G. A. GINTER, Cincinnati
*Member Firm, Nichols, Morrill, Wood,
Marx & Ginter*

JOHN M. HANCOCK, New York
Partner, Lehman Brothers

L. J. HUERKAMP, Cincinnati
*Secretary, The Kroger Grocery & Baking
Company*

CHESTER F. KROGER, Cincinnati
Capitalist

FRED LAZARUS, Jr., Columbus
*Vice-President and Treasurer, The F. & R.
Lazarus & Co.*

ALBERT H. MORRILL, Cincinnati
*President, The Kroger Grocery & Baking
Company; Piggly Wiggly Corporation*

CHARLES M. ROBERTSON, Cincinnati
*Vice-President and Treasurer, The Kroger
Grocery & Baking Company*

JOHN R. RONEY, Chicago
*Vice-President, Consumers Sanitary Coffee
and Butter Stores (Chicago Branch of The
Kroger Grocery & Baking Company)*

CLARENCE O. SHERRILL, Cincinnati
*Vice-President, The Kroger Grocery & Bak-
ing Company*

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PUBLIC AUDITORS

Lybrand, Ross Bros. & Montgomery

GENERAL COUNSEL

Nichols, Morrill, Wood, Marx & Ginter

TRANSFER AGENTS

The Provident Savings Bank and Trust Company, Cincinnati
Bankers Trust Company, New York

REGISTRARS

The Central Trust Company, Cincinnati
The Commercial National Bank and Trust Company of New York, New York

To the Shareholders of

The Kroger Grocery & Baking Company:

On April 1, 1935, the present management of your company will have completed five years of service.

As shown by the facts stated in this and previous reports during these five years, bank loans, bonds and preferred stocks of subsidiaries and employees deposits have been paid off aggregating \$7,184,806; our annual dividend rate has been increased 60%; cash position has been improved by \$1,575,664.68; ratio of fixed assets in per cent of total assets has been decreased from 37.9% to 28.0%; earnings from actual operations (excluding earnings of Piggly Wiggly Corporation), have been increased from a loss of \$76,890.62 in the first six months of 1930, and a profit of \$1,475,671.06 for the entire fiscal year of 1930, to a profit of \$4,011,764.24 for 1934; a reliable and accurate system of accounting, auditing and budgetary control has been installed; a reasonably satisfactory organization of our activities has been established; an effective policy of training and relations with our personnel has been evolved and many other operating efficiencies have been adopted.

During the same five years the economic and business depression has descended to the low of 1932, and ascended to a partial recovery during 1934. Taxes have increased enormously. Governmental regulations have multiplied enormously and made operations difficult with small, if any, corresponding benefits to your company.

While unpredictable trends and uncontrollable events prevent any assurance of what the future holds for the industry in general, we are confident that your company has the resources, knowledge and experience to hold its own with others in the grocery chain field.

The services which grocery chains are rendering are so fundamentally sound and so beneficial to the body politic as a whole, particularly in cutting the cost and improving the science of distribution, that we are confident the chain store industry as such will continue to furnish a valuable service to the public and reasonable return on its investment, and a continuity of employment to those engaged in the industry, a continuity which is equalled by few and exceeded by none.

Directors and Officials During the year 1934 there have been no changes in the personnel of the Board of Directors nor in the officers of the company.

The advice, interest and assistance of the Board during the past year have been of the same valuable character as that furnished your company during the preceding four years.

Sales Total sales for the fiscal year 1934 (52 weeks) amounted to \$221,175,330, compared with \$205,691,715 in 1933 (52 weeks), an increase of \$15,483,615 or 7.5%.

According to the Bureau of Labor Statistics of the U. S. Department of Labor, food prices in 1934 averaged 11.1% higher than in 1933. Thus, for the year 1934, a decline in our total tonnage sales is indicated.

Average weekly sales in 1934 were \$968 per store as compared with \$861 in 1933, an increase of \$107 per store or 12.4%. Thus, while there was a decline in total tonnage sales, there was an increase indicated in tonnage sales per store.

Earnings The attached consolidated income account for the fiscal year 1934 shows final net income of \$4,198,241.74 after Federal Income Tax. This is equivalent, after preferred dividends, to \$2.31 per share on the 1,810,293 6/20 shares of common stock outstanding with the public at the end of the year.

Of the above final net income, \$186,477.50 represents dividends received from your company's subsidiary, Piggly Wiggly Corporation. Deducting this amount from the final net income, a net profit from operations of \$4,011,764.24 is shown for 1934, as compared with \$4,546,203.15 for 1933. From operations alone the 1934 earnings were \$2.21 per share as compared to \$2.51 per share for 1933.

The decline in earnings from 1933 to 1934 occurred in the last half of the latter year. It was due almost entirely to a decline in gross profit and an increase in wages.

Gross profit could not be maintained during the last half of 1934 because of increasing cost of material, the inevitable lag between increased wholesale and retail prices and increasing price competition in all the territory which your company serves.

As stated in my report for 1933, our salaries and wages increased in that year over 1932, due to the President's Re-employment Agreement, approximately ninety cents per share. This increased cost was

incurred only from August 1, 1933. In 1934, it was incurred during the entire fiscal year, which increase in wages in 1934 is equivalent to approximately \$1.80 per share.

Expenses The total operating and administrative expenses in 1934 amounted to \$41,683,244.04, an increase of \$1,739,438.25 over 1933. This increase is more than accounted for by an increase of \$3,265,625.96 in salaries and wages. Practically all of the increase in salaries and wages has been in the lower salary and wage brackets. The standards set on August 1, 1933, by the President's Re-employment Agreement and continued with some slight downward adjustment by the NRA agreement of November 15, 1933, have been continued by your company with meticulous care, and in many cases where operations have justified it, wages have been increased over the minimum wage through raises and bonuses based on performance.

There is no intention in this report to question the social service rendered by this increase in salaries and wages. It represents a division of profits between the more than 22,000 employees who operate the business and the 20,000 shareholders whose money is invested in it. But shareholders are entitled to exact information as to how this policy affects their company's final net earnings.

Depreciation The company continued its same depreciation policy and rates for 1934, and as shown by the income account, depreciation was taken in virtually the same amount.

Inventories At the beginning of the fiscal year 1934, inventories amounted to \$18,627,029.42. On June 16, 1934 (end of the first six periods), inventories amounted to \$18,034,203.34. At the end of the fiscal year 1934, inventories amounted to \$20,916,910.15, an increase as of December 29, 1934, over December 30, 1933, of \$2,289,880.73, or 12.3%. This increase was due largely to increases in commodity prices. Giving effect to increased cost, inventories at the end of 1934 were approximately the same as at the end of 1933.

Cash Position and Current Ratio Comparison of cash position and current ratio on December 29, 1934, as compared with December 30, 1933, is shown on graphs on page 14. The decrease in cash and equivalent is more than accounted for by the increased dollars in inventory.

Loans On December 29, 1934, your company had no bank loans.

Capital Structure The shares of common stock issued remained unchanged at 1,848,278 6/20 during 1934. Deducting the shares held in the treasury (37,985), the number of outstanding shares on which dividends must be paid was 1,810,293 6/20 on December 29, 1934.

There are outstanding \$111,000 of preferred stock of the company. This negligible amount of preferred stock is the only liability standing between the common shareholders and the company's net assets of \$47,794,035.69.

Shareholders The number of common shares outstanding and the number of shareholders shown on page 15 indicate the character of the distribution of Kroger stock. Of your total shareholders, 35% are located in Ohio owning 33% of the total shares. There are shareholders in every state in the Union, and 204 shareholders in foreign lands. Of all shareholders, 37% are women, 54% are men, and 9% are institutions or corporations. Of these, 80% own less than 100 shares each, and 90% are individuals owning approximately two-thirds of all shares.

The records of your company show a total number of common shares transferred in 1933 of 1,246,279 shares, and in 1934 of 788,571 shares.

Store Maintenance, Expansion and Closing At the end of the fiscal year 1934 we were operating 4,352 grocery stores, 48 (1%) less than the 4,400 stores in operation at the close of the fiscal year 1933.

The average number of grocery stores in operation during 1934 was 4,356, which is 217 (5%) less than the average number of 4,573 stores in operation during 1933.

At the end of the fiscal year 1934 we were operating 2,748 meat markets, 19 (1%) less than the 2,767 in operation at the end of the fiscal year 1933.

The average number of meat markets operated during 1934 was 2,745, or 70 markets (2%) less than the average number of 2,815 in operation during 1933.

In 1934 there were 73 new stores opened and 258 either remodeled or relocated, as compared with 56 new stores opened and 289 either remodeled or relocated in 1933.

During 1934 your company has expended on refinishing, remodeling, and the construction of new stores, an aggregate of \$1,293,613, compared to an aggregate expenditure for the same purposes in 1933 of \$1,595,253.

Expansion by the establishment of new stores is now being promoted aggressively but conservatively in Wisconsin, Kansas and Tennessee.

On January 26, 1935, since the close of the fiscal year, your company has announced the sale of a warehouse and stores located in the State of Oklahoma. While these stores had materially improved their operations in the last several years, they had never operated profitably since their acquisition in 1928 and 1929. They were located at such a distance from our main operations that it was thought wise to dispose of them. Their sale will not affect our operations except advantageously.

**Merchandising
and Operations**

During the last five years we have maintained a policy of gradual decentralization of these two activities. Pursuit of this policy has been slow and gradual, with a number of temporary reversals of policy due to particular conditions. However, our business is in the stores. The closer we can place responsibility and authority to those stores, with central control on major policies, the more flexible and responsive will be our merchandising and operations to the needs of the local community. This policy of decentralization will be continued during 1935.

**Kroger Food
Foundation**

This activity described in all previous annual reports since its establishment, has reached a point, during the past year, at which its services to your company and its customers are of thoroughly practical value. By constant inspection and testing, it maintains the products which we manufacture and buy at a definite high standard which is not exceeded by those of any other food distributor.

The Foundation has developed, during 1934, and the company has adopted, a standard formula for bread which produces uniformly a loaf that is highly palatable and of greater nutritive value than that produced by any of our regular competitors.

Through this activity we will continue to keep our food products on a standard equal to the best.

Our determination to manufacture and handle only foods of high quality has been evidenced during the past year by our recommendation to and cooperation with the United States Government on all questions of standards and labels, thus indicating our desire to let our customer know just what is in the can or package.

Manufacturing

The importance of this division of our company's activities is constantly increasing. Maintenance of our manufacturing standards of quality is assured by the impartial inspection furnished by the Food Foundation. We are constantly increasing the number of items processed and packed by this division.

During 1934 we have modernized much of our manufacturing equipment and our entire power plant at the Cincinnati factory; have remodeled our Columbus meat packing plant and have undertaken the construction of a large meat distributing plant at Cincinnati, the old meat packing and distributing plant at this point having been abandoned as obsolete and inefficient.

Personnel

In any retail business, personnel is the most valuable asset. Constant effort and money have been and will continue to be spent on preserving and improving this asset of your company.

Our training schools for store personnel have graduated during the past year 714 grocery and meat student managers, and there were enrolled in these schools at the beginning of the present fiscal year 444 students. The effect of the continued efforts in this direction has shown results in that the turnover in store personnel in the last five years has been reduced about 42% in numbers.

The Kroger Employees Mutual Benefit Association completed its second year of operations in 1934. At the close of the year over 76% of our employees were insured under the auspices of this association, an entirely employee-officered association. In the twenty credit union corporations supervised by this association, 7,157 employees have taken out memberships and had on deposit at the close of the year \$203,357.27, of which \$161,883.50 had been loaned in small amounts at low interest rates to 2,657 employees.

On the balance sheet you will find under "Cash and certificates of dividend accumulation . . . under group insurance plan" a contra item of \$86,829.75. This is an accumulation of cash held by the company solely for the benefit of its employees and created by an accumulation under our group insurance plan.

At the close of 1933, I reported an increase in the number of employees of 2,505 or 13.6% as compared to 1932, due to NRA and PRA. In 1934, the number of our employees increased 5.5% as compared to 1933. NRA again caused the increase.

It should be noted that in companies such as yours, where the number of employees during the worst years of the depression remained approximately the same as during the year 1929, the increase of employees has been large, whereas in the manufacturing and heavy industries as a whole the actual number has not increased materially. Even if the burden of additional salaries and wages is onerous, yet your company and those engaged in similar activities have the satisfaction of knowing that they have borne more than their share of the burden of unemployment.

Piggly Wiggly Corporation This is your company's chief active subsidiary. During the past two years, under new and aggressive management, it has been making progress. The directors of Piggly Wiggly Corporation felt that its earnings during 1934 justified a declaration of a dividend. Therefore, we were able to add to your company's earnings for 1934 \$186,477.50, received from this source.

Taxes The tax burden placed on our company has continued to increase during the year, thus necessarily increasing the price of merchandise and throwing a large added load on the consumer, with resulting decrease in buying capacity.

Since the last report, 3% sales tax laws have been enacted in the States of Kentucky and Ohio. At the present time there are various forms of sales taxes in the following states in which the Kroger Company operates: Illinois, Indiana, Iowa, Kentucky, Michigan, Mississippi, Missouri, North Carolina, Ohio, Oklahoma, Pennsylvania and West Virginia.

There is no uniformity in sales tax laws. They are all experiments and each state in which we operate has adopted a different method. In theory the tax is collected by the merchant from the customer for and on behalf of the State. Unfortunately in most cases this theory does not work in practice.

Discriminatory chain store taxes are now in force in the states of Indiana, Wisconsin, Michigan, Kentucky, North Carolina, Minnesota and West Virginia, and in the city of St. Louis, Mo., which still further add to the expense of operations and thus increase the tax burden ultimately thrown on the consumer. Efforts are now being made to pass similar discriminatory taxes in many other states. But this class of legislation is promoted by and for the benefit of particular groups. We feel that, increasingly, legislators are realizing the benefits of the chain store method of merchandising and are resisting the demands of small pressure groups.

Here is a graphic illustration of how taxes are piled on taxes. It is fairly illustrative of the increasing burden industry is compelled to shoulder. Your company operates five dairies or pasteurizing plants. Taxes in many instances are laid on the operations of such dairy plants under the following headings:

Income Taxes	Vehicles Mileage Tax
Franchise Taxes	Auto License Tax
Real Estate Tax	Gasoline Tax
Personal Property Tax	Auto Parts Tax
Cream Station Property Tax	Motor Oil Tax
Wholesale Dealers License Tax	Tires and Tubes Tax
Cream Station License Tax	Telephone Service Tax
Petroleum Dealers License Tax	Telegraph Service Tax
Butter Manufacturers License Tax	Capital Stock Tax
Ice Cream Manufacturers License Tax	New Cars and Trucks Excise Tax
Milk Plant License Tax	Stock Transfer Excise Tax
Cream Testers License Tax	Sales License Tax
Retail Sales Tax	Processing Taxes
Chain Store Taxes	Unemployment Insurance Tax
Weighers and Samplers License Tax	

Taxes, estimated in our last annual report, for 1934 as \$9 a share or 7.8% of sales or 34.3% on invested capital will increase in 1935, in our opinion.

Public Relations On account of the ever increasing regulatory and taxation laws affecting business, it is necessary to give careful attention to all legislation introduced in the National Congress and in the legislature of every state in which we operate. Thus, ill-considered, impractical and useless legislation and regulations are often avoided but sometimes adopted. It appears often that the Government is more concerned about ways and means to harass legitimate private business, and through it, burdening the consumer, than in trying to make conditions bearable for both distributor and the public.

Your company constantly strives to build up public good will by contributing to worthy general charities, civic movements and community activities throughout the territory in which it operates. Our officials and employees do their full share in memberships and service in civic organizations and other similar activities in their communities.

We are carefully complying with all provisions of national codes with reference to trade practices and labor provisions, notwithstanding the heavy increased burden of expense which such compliance involves.

Despite the labor agitation and unrest which has confronted our employees constantly throughout our entire territory during the past year, our personnel, in all but a few instances, have remained loyal. They have responded, when allowed to do so, with a fine spirit of cooperation and display of sound common sense to our efforts to be frank and fair with them. To them is due the thanks of shareholders and officers for a large share of whatever progress has been accomplished by your company during 1934. To them, I am indebted personally for their support and endeavors to carry out the policies of your company.

Respectfully submitted,

Albert B. Morris
President

President

The Kroger Grocery & Baking Co

CONSOLIDATED BALANCE SHEETS, DECEMBER 31

ASSETS	December 29, 1934	December 30, 1933
CURRENT:		
Cash in banks and on hand.....	\$ 7,951,225.85	\$ 8,415,285.83
United States Government securities, at cost: Par value of securities held in escrow \$855,500. (Quoted market prices 1934 \$882,746; 1933 \$1,265,297)	872,574.83	1,252,500.00
County and municipal bonds, at cost: (Quoted market prices 1934 \$272,790; 1933 \$222,232).....	\$ 268,000.00	\$ 223,000.00
Notes and accounts receivable, net of allowance for those doubtful of collection:		
Customers, including welfare associations and relief agencies	\$ 1,626,737.65	\$ 1,130,832.01
Employees.....	22,018.90	23,254.81
Claims, advances, etc.....	321,216.33	523,888.08
	<u>\$ 1,969,972.88</u>	<u>\$ 1,677,974.90</u>
Inventories of merchandise, at lower of cost or market.....	\$20,916,910.15	\$18,627,029.42
Cash surrender value of life insurance.....		30,452.30
Prepaid insurance, rent, taxes, etc.....	509,050.20	395,805.74
Accrued accounts receivable, not due.....	235,225.22	219,134.99
TOTAL CURRENT ASSETS	<u>\$32,722,959.13</u>	<u>\$30,841,183.18</u>
Deferred claims receivable, net of provision for possible losses.....	\$ 409,070.35	\$ 505,585.96
Investments, at ledger values:		
Stock and notes of affiliated company, not included in consolidation:		
Capital stock, at cost.....	\$ 6,064,742.49	\$ 6,063,603.63
Notes receivable.....		100,000.00
Other stocks, bonds, mortgage notes and accrued interest.....	88,192.22	64,088.34
	<u>\$ 6,152,934.71</u>	<u>\$ 6,227,691.97</u>
Common stock of company held for sale to employees (1934, 20,593 shares; 1933, 38,520 shares).....	\$ 224,905.02	\$ 420,693.51
Cash and certificates of dividend accumulation held for use and benefit of employees under group insurance plan (Contra).....	\$ 86,829.75	—
FIXED ASSETS:		
Land and buildings, as appraised by The American Appraisal Company, Harry S. Cutmore and Associates; C. G. Richardson, C. E., and the real estate department of the company, as at January 1, 1933, with subsequent additions at cost:		
Land.....	\$ 1,408,288.80	\$ 1,382,068.45
Buildings.....	\$ 8,373,546.53	\$ 8,267,614.24
Machinery and equipment, as appraised by The American Appraisal Company, as at January 1, 1933, with subsequent additions at cost	15,903,650.47	15,595,820.12
Automotive equipment, etc., at cost.....	2,928,605.81	2,597,786.90
	<u>27,205,802.81</u>	<u>26,461,221.26</u>
Less, Allowance for depreciation and obsolescence.....	13,040,693.64	12,210,808.94
	<u>\$14,165,109.17</u>	<u>\$14,250,412.32</u>
TOTAL FIXED ASSETS	<u>\$15,573,397.97</u>	<u>\$15,632,480.77</u>
Store and general supplies and deferred charges to future operations.....	\$ 524,743.97	\$ 431,314.68
	<u>\$55,694,840.90</u>	<u>\$54,058,950.07</u>

Company and Subsidiary Companies
 DECEMBER 29, 1934 AND DECEMBER 30, 1933

	LIABILITIES	December 29, 1934	December 30, 1933
CURRENT:			
Accounts payable, vendors, etc.		\$ 4,190,206.07	\$ 3,929,619.38
Accrued expenses, taxes, etc.		2,267,545.09	2,027,580.79
Provision for federal taxes, current and prior years.		1,061,210.93	743,475.22
Dividends payable.		1,803.00	1,810.00
TOTAL CURRENT LIABILITIES		\$ 7,520,765.09	\$ 6,702,485.39
Provision for rentals of closed stores, not yet due.		293,210.37	373,160.02
		\$ 7,813,975.46	\$ 7,075,645.41
Amounts due employees representing dividends and premium refunds on group insurance held by company for the use and benefit of employees (Contra).		\$ 86,829.75	

CAPITAL AND SURPLUS

Preferred capital stock outstanding:			
First preferred, 6 pct. par \$100.	\$55,800.00	\$55,800.00	
Second preferred, 7 pct. par \$100.	55,200.00	55,600.00	
		111,000.00	111,400.00
Common capital stock without par value: (Authorized 3,000,000 shares)			
	<i>Shares</i>	<i>Shares</i>	
Issued.	1,848,278 6/20	1,848,278 6/20	
Less, In Treasury, (purchase option expired July 1, 1934).	17,392	17,392	
Outstanding.	1,830,886 6/20	1,830,886 6/20	
		33,398,276.30	33,398,276.30
Capital surplus, as annexed.	883,083.59		630,697.08
Earned surplus appropriated for contin- gent uninsured losses.	189,223.96		203,401.58
Earned surplus, as annexed.	13,212,451.84		12,639,529.70
		\$47,794,035.69	\$46,983,304.66
		\$55,694,840.90	\$54,058,950.07

The Kroger Grocery & Baking Company
and Subsidiary Companies

CONSOLIDATED CAPITAL SURPLUS ACCOUNT
for the period from December 31, 1933 to December 29, 1934

Balance, December 31, 1933.....	\$630,697.08
Add:	
Profit from sale of 17,927 shares of The Kroger Grocery & Baking Company common stock.....	252,386.51
Capital surplus, December 29, 1934.....	<u>\$883,083.59</u>

CONSOLIDATED EARNED SURPLUS ACCOUNT
for the period from December 31, 1933 to December 29, 1934

Balance, December 31, 1933.....	\$12,639,529.70
Add:	
Net income for the fiscal period ended December 29, 1934, as annexed.....	4,198,241.74
Deduct:	<u>\$16,837,771.44</u>
Cash dividends paid in the fiscal period ended December 29, 1934.....	\$3,245,840.70
Premiums paid on retirement of preferred stock.....	36.76
Goodwill of subsidiary company, acquired in 1934, written off.....	15,296.10
Additional provision for federal income tax assessments for prior years	296,444.67
Correction and final adjustment of amounts written off in prior years which write-off was the difference between the recorded costs of equipment and depreciation thereon and the costs less depreciation as determined by an appraisal.....	<u>67,701.37</u>
	3,625,319.60
Earned surplus, December 29, 1934.....	<u>\$13,212,451.84</u>

The Kroger Grocery & Baking Company
and Subsidiary Companies

CONSOLIDATED INCOME ACCOUNT

*for the periods from December 31, 1933 to December 29, 1934
and from January 1, to December 30, 1933*

	Fiscal period ended December 29, 1934	Fiscal period ended December 30, 1933
Net Sales.....	\$221,175,330.78	\$205,691,715.22
Cost of sales, including warehousing and transportation expenses..	172,909,674.89	158,494,790.77
	<u>\$ 48,265,655.89</u>	<u>\$ 47,196,924.45</u>
Operating expenses, excluding depreciation.....	\$ 39,282,609.20	\$ 37,741,116.25
Administration expenses.....	2,400,634.84	2,202,689.54
	<u>\$ 41,683,244.04</u>	<u>\$ 39,943,805.79</u>
Profit from operations before allowance for depreciation.....	\$ 6,582,411.85	\$ 7,253,118.66
Allowance for depreciation.....	2,356,200.10	2,386,059.12
	<u>4,226,211.75</u>	<u>4,867,059.54</u>
Interest earned, net of interest paid.....	95,121.34	168,352.34
Profit from operations and other income, excluding income from subsidiary sources, and federal income taxes.....	4,321,333.09	5,035,411.88
Net accrued earnings of subsidiary companies for fiscal years (1934 includes dividends of \$186,477.50 received from affiliated company not included in consolidation which company's earnings for the year 1934 were \$189,393.94).....	465,019.49	182,787.27
	<u>4,786,352.58</u>	<u>5,218,199.15</u>
Federal income taxes, estimated.....	588,110.84	671,996.00
Net income.....	<u>\$ 4,198,241.74</u>	<u>\$ 4,546,203.15</u>

LYBRAND, ROSS BROS. & MONTGOMERY

ACCOUNTANTS AND AUDITORS

CAREW TOWER
CINCINNATI

WILLIAM M. LYBRAND
T. EDWARD ROSS
ROBERT H. MONTGOMERY
JOSEPH M. PUGH
WALTER A. STAUB
H. H. DUMBRILLE
JOHN HOOD, JR.
HOMER N. SWEET
T. B. G. HENDERSON
GEORGE R. KEAST
PRIOR SINCLAIR

NEW YORK	ST. LOUIS
PHILADELPHIA	ATLANTA
CHICAGO	DALLAS
BOSTON	HOUSTON
NEWARK	SAN FRANCISCO
BALTIMORE	LOS ANGELES
WASHINGTON	PORTLAND
PITTSBURGH	SEATTLE
DETROIT	—
CLEVELAND	LONDON
CINCINNATI	PARIS
ROCKFORD	BERLIN
LOUISVILLE	

A. CHARLES GUY
RESIDENT PARTNER

The Board of Directors,
The Kroger Grocery and Baking Company,
Cincinnati, Ohio.

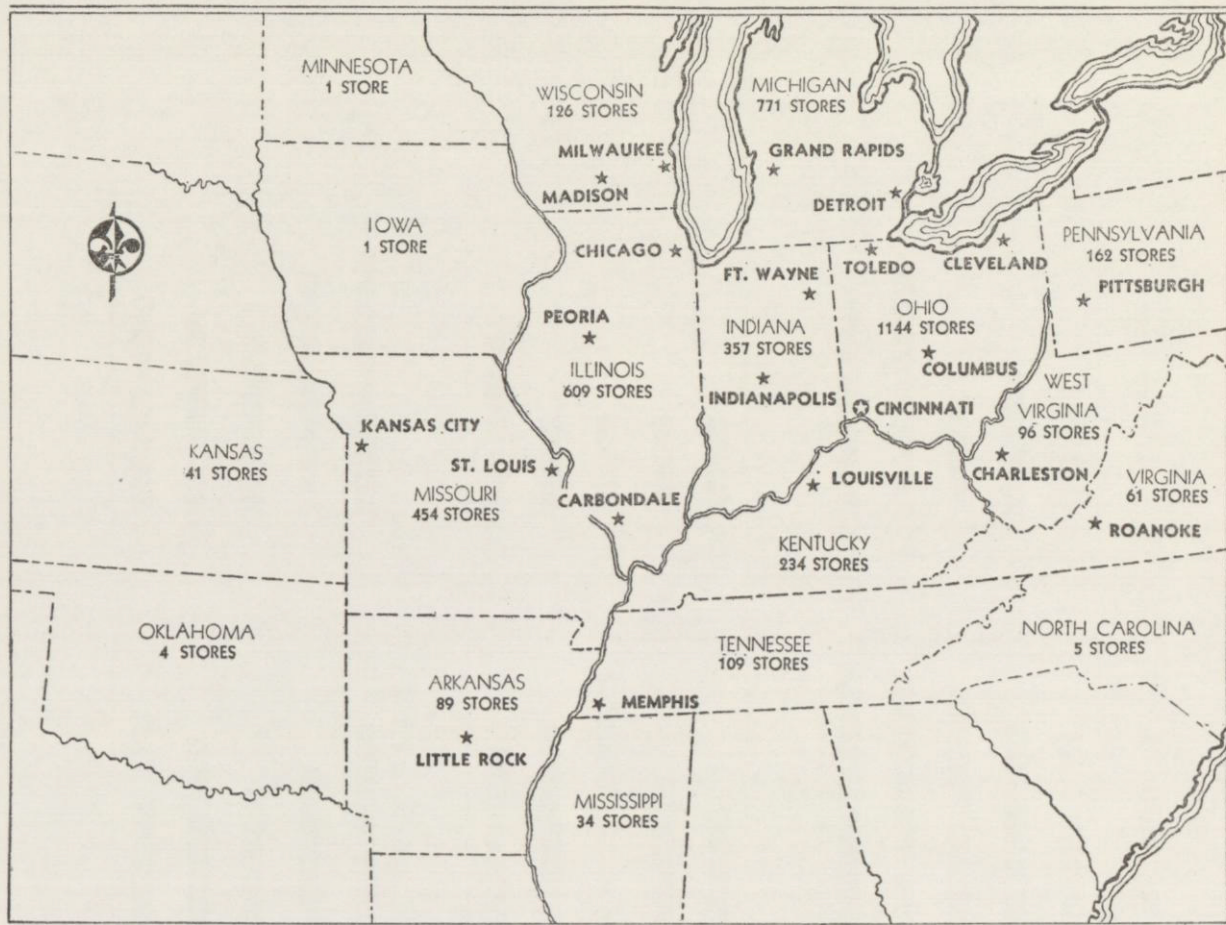
We have made an examination of the consolidated balance sheet of The Kroger Grocery and Baking Company and its subsidiary companies as at December 29, 1934, and the related consolidated statement of income, earned surplus and capital surplus for the year 1934. In connection therewith we examined or tested accounting records of the company and other supporting evidence and obtained information and explanations from officers and employees of the company; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the attached consolidated balance sheet and related consolidated statements of income and surpluses fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, their position at December 29, 1934, and the results of their operations for the year then ended.

Cincinnati, Ohio,
February 6, 1935.

Lybrand Ross Bros & Montgomery

MAP OF KROGER OPERATIONS



The map shows the location of Kroger branch headquarters cities and the number of stores in operation in each state. An office, warehouse, and transportation unit is maintained in twenty of these cities. Since the close of the fiscal year 1934, the Oklahoma City Branch has been disposed of, and the operations in Oklahoma are shown as of the date of this report. At strategic points, a number of sub-warehouses are operated for the purpose of better serving the company's stores in the surrounding communities. The company's stores are located in 1463 cities and towns in eighteen states.

Bakeries are operated in thirteen cities, namely Chicago, Cincinnati, Cleveland, Columbus, Detroit, Fort Wayne, Grand Rapids, Indianapolis, Louisville, Madison, Memphis, Roanoke, and St. Louis.

Coffee roasting operations are carried on in Cincinnati and St. Louis.

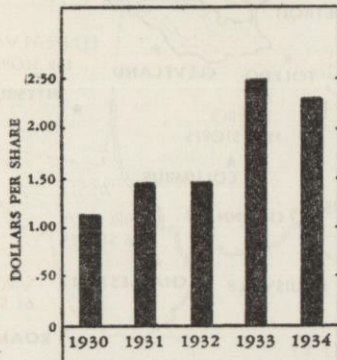
Dairies are operated in Cincinnati, Dayton, Grand Rapids, Indianapolis, and Toledo.

Packing plants are operated in Cincinnati and Columbus.

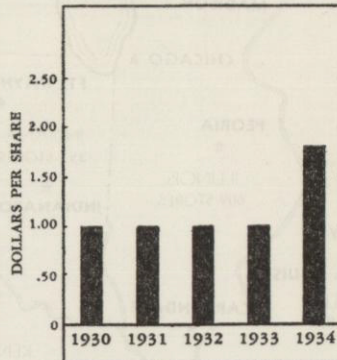
In addition, the Kroger Company operates its own sausage plant, beverage plants, printing plant, and laundries at suitable locations. In a factory in Cincinnati, various items are manufactured and packaged for sale in stores under the brand names of the company. A factory manufacturing store fixtures and equipment is operated at Jackson, Tennessee, by a Kroger subsidiary.

The Kroger Grocery & Baking Company and Subsidiary Companies

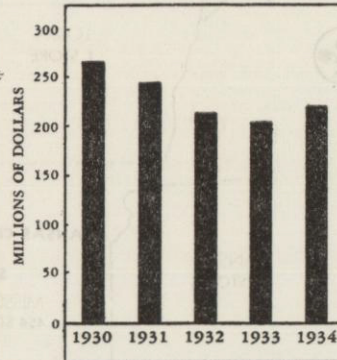
EARNINGS PER SHARE
ON COMMON STOCK



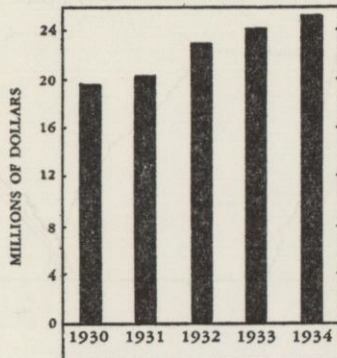
CASH DIVIDENDS PER SHARE
PAID ON COMMON STOCK



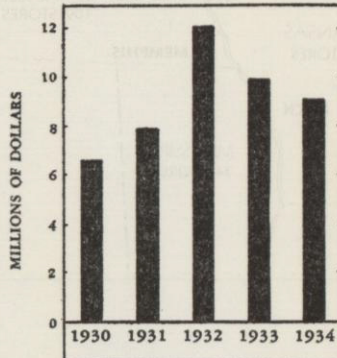
TOTAL SALES



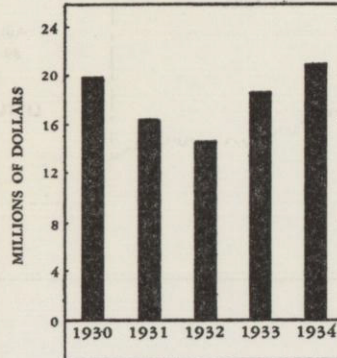
NET WORKING CAPITAL



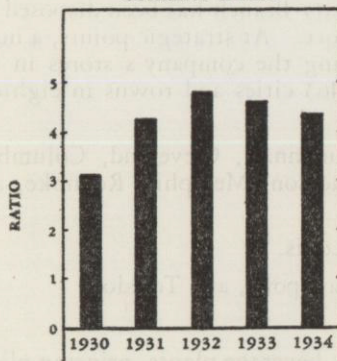
CASH, U. S. GOV'T AND
MUNICIPAL SECURITIES



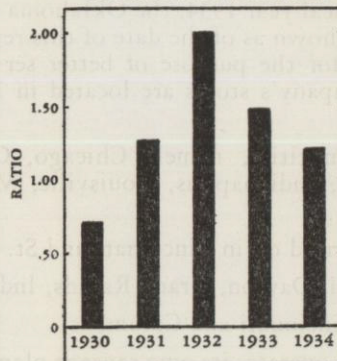
INVENTORIES



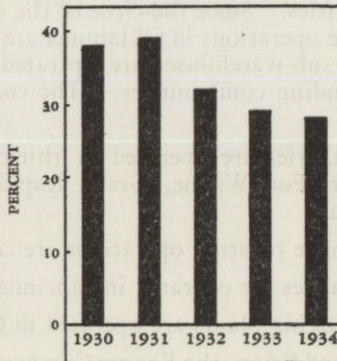
CURRENT RATIO



RATIO OF CASH, U. S. GOV'T
AND MUNICIPAL SECURITIES
TO CURRENT LIABILITIES



FIXED ASSETS IN PERCENT
OF TOTAL ASSETS



The Kroger Grocery & Baking Company
and Subsidiary Companies

FINANCIAL AND OPERATING STATISTICS FOR THE FISCAL YEARS 1930 TO 1934, INCLUSIVE

PROFIT AND DIVIDENDS	1930	1931	1932	1933	1934
Final Net Profit—Dollars Per Share	1.14	1.46	1.47	2.51	2.31
—Total Dollars.....	2,168,247	2,731,128	2,740,867	4,546,203	4,198,241
Cash Dividends Paid Per Common Share	1.00	1.00	1.00	1.00	1.80
STOCK					
Number Shares Common Stock Outstanding with Public at End of Year	1,813,486 6/20	1,813,486 6/20	1,811,091 6/20	1,792,366 6/20	1,810,293 6/20
Number Shareholders at End of Year	16,945	18,856	20,680	19,605	20,633
SALES					
Total Sales—Dollars	267,094,345	244,371,147	213,159,743	205,691,715	221,175,330
Average Retail Sales — Dollars Per Store Per Week	954	941	848	861	968
Index Numbers—Base, 1930=100:					
Total Sales—Dollars.....	100	92	80	77	83
Retail Sales Per Store Per Week	100	99	89	90	102
Retail Food Prices (Bureau of Labor Statistics, U. S. Dept. of Labor)	100	83	69	68	75
Tonnage Sales—Total.....	100	111	115	114	110
—Per Store Per Week	100	120	128	133	135
STORES					
In Operation at End of Year:					
Grocery.....	5,165	4,884	4,737	4,400	4,352
Meat	2,990	2,869	2,845	2,767	2,748
Average Number Operated During Year:					
Grocery.....	5,302	4,980	4,816	4,573	4,356
Meat	3,033	2,889	2,877	2,815	2,745
Licensed Piggly Wiggly Stores at End of Year	2,767	2,558	2,143	1,979	1,836
EMPLOYEES					
Number Full-Time Employees at End of Year	20,072	18,906	18,367	20,872	22,023
BALANCE SHEET STATISTICS					
Current Ratio	3.13	4.27	4.81	4.60	4.35
Cash, U. S. Government and Municipal Securities:					
Dollars.....	6,587,755	7,884,339	12,035,381	9,890,785	9,091,800
Ratio to Total Current Liabilities	.72	1.27	2.00	1.48	1.21
Inventories—Dollars.....	19,937,671	16,443,597	14,589,421	18,627,029	20,916,910
Fixed Assets in Percent of Total Assets	38	39	32	29	28
Net Working Capital.....	19,583,517	20,278,307	22,920,966	24,138,697	25,202,194

